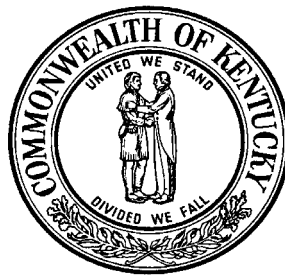


**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
CLERK**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Ronald Gilbert, Lincoln County Judge/Executive
Honorable George O. Spoonamore, Lincoln County Clerk
Members of the Lincoln County Fiscal Court

The enclosed report prepared by Moore Stephens Potter, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Clerk of Lincoln County, Kentucky, for the year ended December 31, 2003.

We engaged Moore Stephens Potter, LLP to perform the audit of this statement. We worked closely with the firm during our report review process; Moore Stephens Potter, LLP evaluated the Lincoln County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
CLERK**

**For The Year Ended
December 31, 2003**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LINCOLN COUNTY CLERK

For The Year Ended
December 31, 2003

Moore Stephens Potter, LLP has completed the Lincoln County Clerk's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees increased by \$4,092 from the prior year, resulting in excess fees of \$77,822 as of December 31, 2003. Revenues increased by \$191,273 from the prior year and expenditures increased by \$187,181.

Debt Obligations:

Capital lease principal agreements totaled \$3,696 as of December 31, 2003. Future principal and interest payments of \$4,224 are needed to meet these obligations.

Report Comments:

- Payments Of Late Fees, Finance Charges, And Credit Card Fees
- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

The Honorable Ronald Gilbert, Lincoln County Judge/Executive
The Honorable George O. Spoonamore, Lincoln County Clerk
Members of the Lincoln County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Lincoln County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2004, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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The Honorable Ronald Gilbert, Lincoln County Judge/Executive
The Honorable George O. Spoonamore, Lincoln County Clerk
Members of the Lincoln County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comment:

- Payments Of Late Fees, Finance Charges, And Credit Card Fees
- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Lincoln County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Moore Stephens Potter, LLP".

Moore Stephens Potter, LLP

Audit fieldwork completed -
November 30, 2004

LINCOLN COUNTY
 GEORGE O. SPOONAMORE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State:

Fees for Services	\$ 6,224	
Libraries and Archives Grant	<u>11,608</u>	\$ 17,832

Fiscal Court		6,038
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Licenses and Taxes:

Motor Vehicle-		
Licenses and Transfers	\$ 493,730	
Usage Tax	659,852	
Tangible Personal Property Tax	1,339,136	
Licenses-		
Fish and Game	3,821	
Marriage	5,900	
Deed Transfer Tax	52,848	
Delinquent Tax	<u>176,460</u>	2,731,747

Fees Collected for Services:

Recordings-		
Deeds, Easements, and Contracts	\$ 18,497	
Real Estate Mortgages	47,860	
Chattel Mortgages and Financing Statements	63,863	
Powers of Attorney	1,543	
All Other Recordings	31,561	
Charges for Other Services-		
Candidate Filing Fees	3,317	
Copywork	<u>2,182</u>	168,823

Other:

Lien Fee/Late Fee	\$ 384	
Notary Fee to Clerk	6,437	
Cash Long and Short	1,284	
Lien Fee/Late Fee	<u>7,382</u>	15,487

Interest Earned		<u>1,105</u>
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Total Revenues		\$ 2,941,032
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The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY
 GEORGE O. SPOONAMORE, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 376,536

Usage Tax 637,779

Tangible Personal Property Tax 490,208

Licenses, Taxes, and Fees-

Delinquent Tax 21,599

Legal Process Tax 20,621 \$ 1,546,743

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 122,299

Delinquent Tax 18,562

Deed Transfer Tax 50,419 191,280

Payments to Other Districts:

Tangible Personal Property Tax \$ 674,515

Delinquent Tax 86,658 761,173

Payments to Sheriff

2,635

Payments to County Attorney

24,774

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 184,462

Employee Benefits-

Employer's Paid Health Insurance 26,943

Contracted Services-

Fish and Game 3,711

Advertising 768

Printing and Binding 1,121

Phone 464

Other Contracts 6,629 224,098

The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY
 GEORGE O. SPOONAMORE, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Materials and Supplies-		
Office Supplies		\$ 15,438
Other Charges-		
Dues	\$ 1,000	
Travel Expense	473	
Postage	6,603	
Refunds Expense	4,567	
Miscellaneous	911	
Libraries and Archives Grant	<u>11,608</u>	<u>25,162</u>
Total Expenditures		<u>\$ 2,791,303</u>
Net Revenues		\$ 149,729
Less: Statutory Maximum		<u>68,307</u>
Excess Fees		\$ 81,422
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County for 2003		77,822
Payments to Fiscal Court - April 15, 2004		<u>74,000</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 3,822</u></u>

The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the County Clerk's agent in the County Clerk's name.

Note 4. Grants

As of December 31, 2002, the County Clerk's local records bank account had a balance of \$2,642. During 2003, the County Clerk received an additional local records microfilming grant from the Kentucky Department of Libraries and Archives in the amount of \$8,960. This grant earned \$7 in interest. Funds totaling \$11,608 were expended during 2003. The unexpended grant balance is \$1 as of December 31, 2003.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 5. Lease

The office of the County Clerk is committed to a lease agreement with Pitney Bowes for a postage machine. The agreement requires a monthly payment of \$132 for 60 months to be completed on June 30, 2006. The total balance of the agreement was \$4,224 as of December 31, 2003.

COMMENTS AND RECOMMENDATIONS

LINCOLN COUNTY
GEORGE O. SPOONAMORE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

Payment Of Late Fees, Finance Charges, And Credit Card Fees

Per Technical Audit Bulletin No. 93-001, any penalties for late payments are subject to an audit comment. Late charges totaling \$58 and finance charges of \$26 were paid during the year. These are not allowable expenditures of the Clerk's office, nor do they appear to meet the required "reasonable and necessary expenditures to operate the Clerk's office." We recommend the Clerk reimburse the Lincoln County Fiscal Court in lieu of the 2003 fee account in the amount of \$84 from personal funds for the above disallowed expenditures.

Clerk's Response:

None.

INTERNAL CONTROL – REPORTABLE CONDITIONS

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is not a material weakness. We recommend the Clerk establish a proper segregation of duties over his operations. In order to offset this internal control weakness, the Clerk should have assigned duties to another employee such as a separate person prepare deposits from the person who collects money.

Clerk's Response:

None.

INTERNAL CONTROL – MATERIAL WEAKNESSES

None.

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MOORE STEPHENS POTTER LLP

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The Honorable Ronald Gilbert, Lincoln County Judge/Executive
The Honorable George O. Spoonamore, Lincoln County Clerk
Members of the Lincoln County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lincoln County Clerk for the year ended December 31, 2003, and have issued our report thereon dated November 30, 2004. This was a special report on the County Clerk's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lincoln County Clerk's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- Payment Of Late Fees, Finance Charges, And Credit Card Fees

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lincoln County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Lincoln County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Moore Stephens Potter, LLP". The signature is written in a cursive, flowing style.

Moore Stephens Potter, LLP

Audit fieldwork completed -
November 30, 2004

